Housing Privatization
An OSD Perspective

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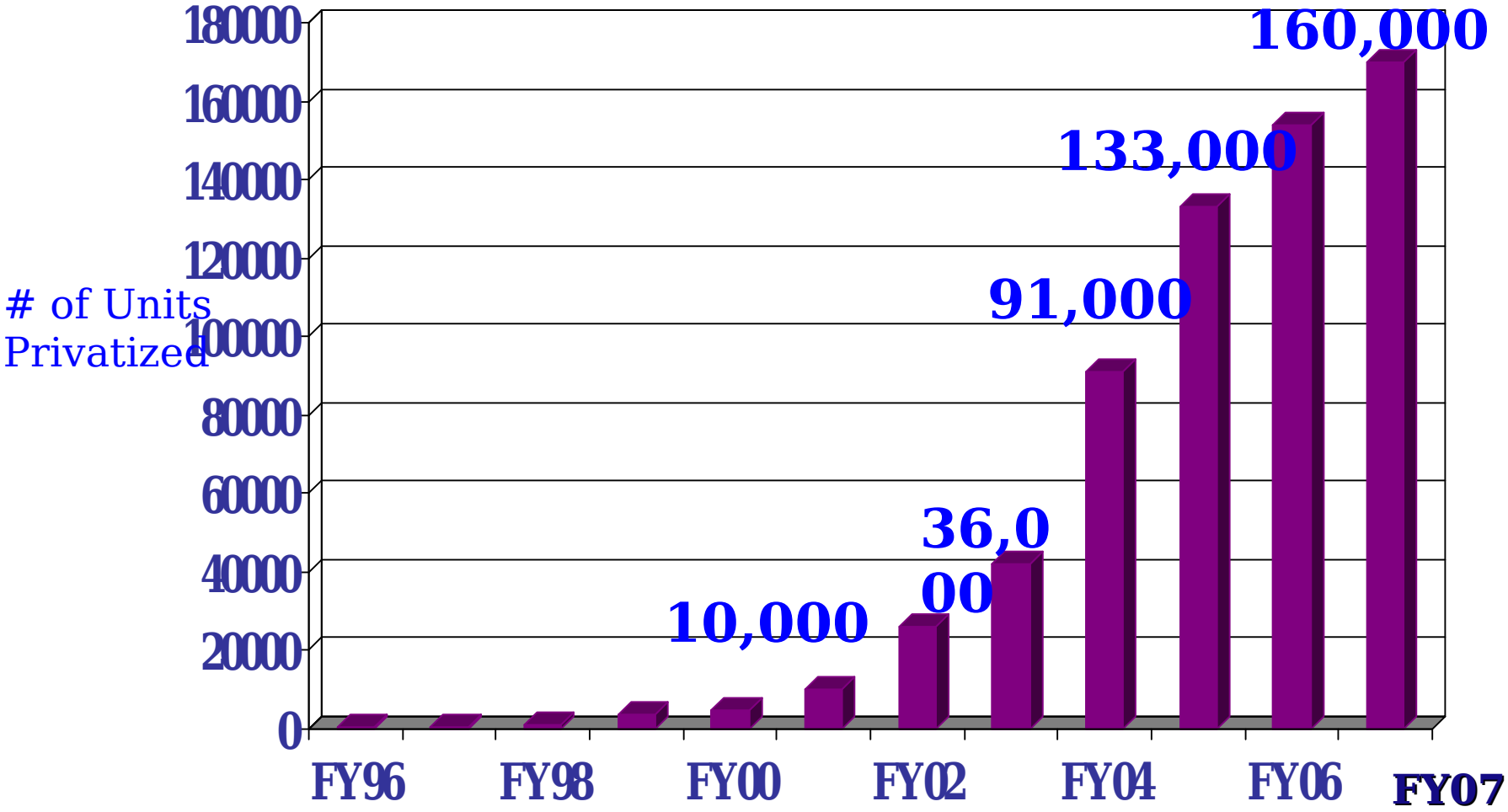
Topics

- From Pilot to Infant to Established Program
- Three Military Departments, Three Approaches
- Privatization Challenges
- Privatization Principles
- Good Projects
- Program and Project Management

Privatization Ramp-Up



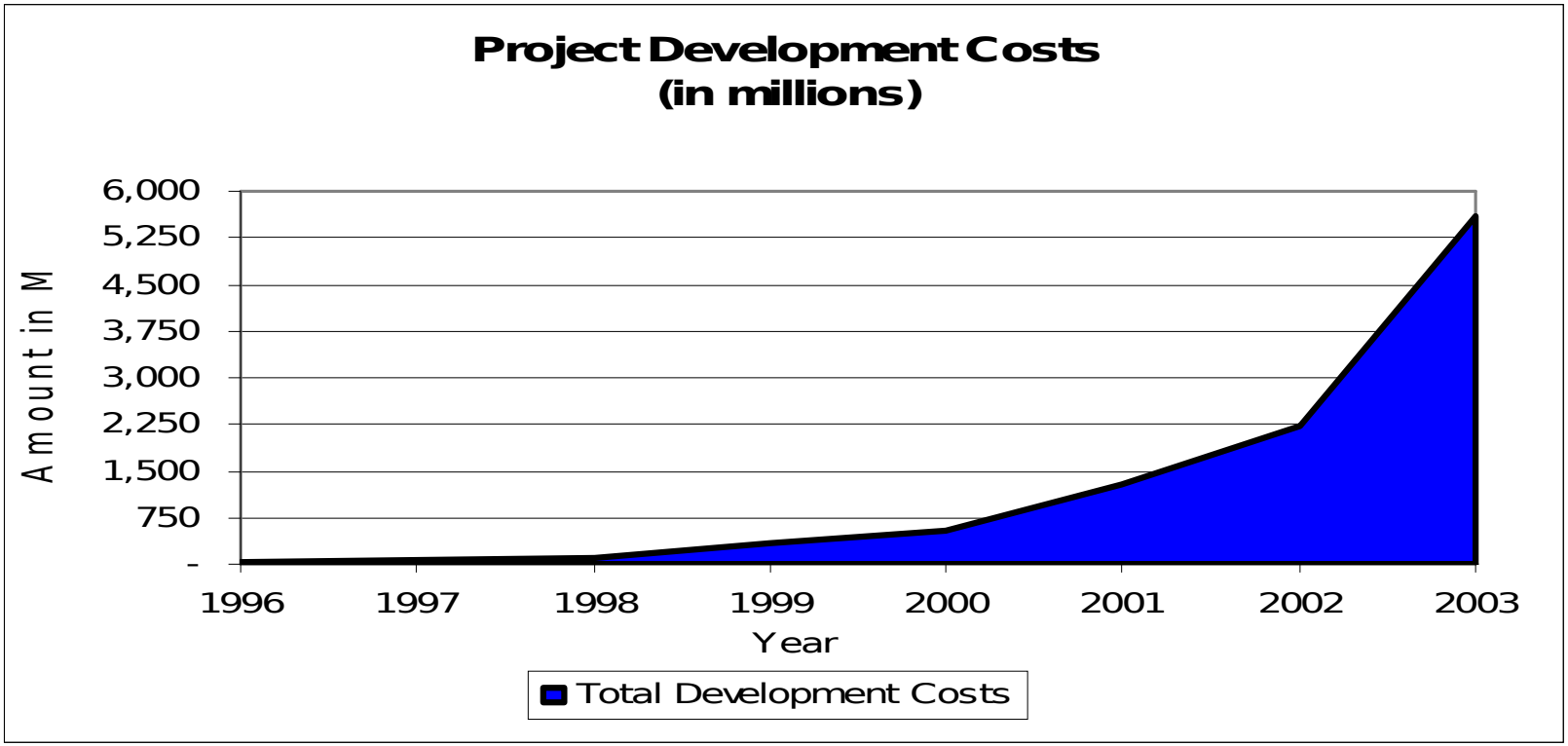
MHPI Construction Status *

All Services: Privatized Units, Newly Constructed and/or Renovated to Date							
Service	Total privatized units	Total new units to be constructed	Total newly constructed units completed	%New construction units completed	Total units to be renovated	Total units renovation completed	% Renovation units completed
Army	27,218	12,203	1484	12%	11,062	2,176	20%
Navy/MC	16,052	5,523	1,565	28%	5,836	515	9%
Air Force	5,486	3,116	2,911	93%	517	200	39%
Total	**48,756**	**20,842**	**5,960**	**29%**	**17,415**	**2,891**	**17%**

Please note: some units will be transferred as part of these MHPI projects which will require no immediate work – those units are not includes in these numbers – so renovated plus new construction totals will not equal total privatized units..

data as of 30 October 2003

- Private sector contribution over 85% of total
- Estimated value of $5.6 billion in total development costs
- Leverage of about 12:1 for appropriated funds



Three Departments, Three Approaches

- Air Force
  - Strictly Competitive Solicitations
  - Arm's Length, Real Property Deal Structures
- Army
  - RFQ Solicitations and Jointly Developed Comprehensive Development Management Plans (CDMP)
  - Limited Partnership Deal Structures
- Navy
  - RFQ/RFP Solicitations (Competitive/Negotiated)
  - Limited Partnership Deal Structures
- Trade-Offs: Negotiation Leverage, Risk Allocation, Project Design, and Construction Commitment

Budget Scoring Cap

- Original Authorities allowed $850M in appropriated funds to be applied to family housing projects
- We are currently on track to exceed the Cap at the start of FY05 (70% of Cap used to date)
- Attempts to raise the Cap has met resistance from CBO
  - Projects are really governmental in nature
  - Cap increase should be on budget based on rate of private capital generated
  - If program leverage is 10:1, a $50M increase requires $500M
- Issue will be under discussion for the FY05 legislative cycle
- We must be careful in how we execute these projects

CBO's Scoring Position

- Housing Privatization is Inconsistent with Two Fundamental Principles of Federal Budgeting
  - Federal financial commitments should be recognized up front in the budget.
  - The budget should be comprehensive, capturing all financial activities of the Federal Government.
- Federal Financial Commitments: Housing Privatization is, in Effect, a Means of Financing the Acquisition of Federal Assets, which should be Recognized Up-Front in the Budget.
- Comprehensive Approach: Housing Privatization is so Governmental, that it Constitutes a Federal Activity which should be Recognized in a Comprehensive Approach to

DOD's Scoring Position

- DOD Concurs with Both Budget Principles of Recognizing Federal Financial Commitments Up Front and of taking a Comprehensive Approach to the Budget. We Think the Current Scoring of the Program is in Line with Those Principles.
- Federal Financial Commitments: Rather than Acquiring Assets Off-Budget, DOD is Actually Trying to Get Out of the Business of Owning Housing, which it does not do well.
- Comprehensive Approach: DOD's Housing Projects are not government-controlled. By Incorporating the Housing Privatization Principles below, DOD Ensures that its Projects are "Arms-Length," in the Case of Lease Transactions or Strictly Limited in the Case of Partnerships.

Privatization Principles

I. Project Scope and Government Subsidy

- The government receives the best value for its contribution….
- A sufficiently certain scope of rental housing…
- And preferred occupancy at specified rents for service members.

Privatization Principles

II. Government Control

- The government protects its interests – ***without*** participating in day-to-day project management.

- Agreements are structured to sufficiently protect government interests – while ***minimizing*** government control and liability.

Privatization Principles

III. Private Sector Ownership and Control

- The development entity owns the property… with all the ***attributes***, ***benefits***, and ***risks*** of that ownership.

- Service members are ***private*** tenants who ***choose*** where to live and pay rent.

Privatization Principles

IV. Private Sector Bears Financial Risk

- The development entity is responsible for all risks common in the market, including insuring its property against fire, flood, and other natural disasters.
  - Development entity does not shift liability to the government
- Minimize creation of private financial risk due to government controls.

Privatization Principles

V. Competition

- Optimal projects are obtained through ***competition*** on price and quality for project's duration

Good Projects

- Financially justified
  - Leverage at least 3:1
  - Life cycle cost equal to or better than Milcon
  - 2nd mortgage less than 1st mortgage
  - Utility and tax treatment
- Valid Housing Requirements
  - Housing Requirements Market Analysis
- Ensure competition
- Effective long-term monitoring…*not managing*

Current Issues

- Schools
  - School-based aid programs
  - School loading
- Expiration of 801 projects
- Mobile Homes
- Taxation
- Lenders and Developers
- Small and Local Business
- Accessibility

Portfolio Management

- Program Evaluation Plan
- Portfolio Management of Projects
- Budget Re-Estimates
- Private Sector Adjustments
  - The Fort Carson Case

New Directions

- Raising the budget authority cap
- Creating Revolving Fund
- Korean Housing Pilot Program
- Barracks Privatization
- Lodging Privatization

Questions?
DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA